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Achieving a transformative recovery: A trade union briefing on Public Development Banks and the "Finance in Common" Summit

Why PDBs matter

This briefing provides an overview of trade union priorities for three main categories of Public Development Banks (PDBs) that will gather at the November 2020 Finance in Common Summit:

1) Multilateral Development Banks with public and private lending as well as policy operations, such as the World Bank Group; 2) bilateral Development Finance Institutions typically based in high-income countries with a mandate to lend to the private sector in developing countries, such as the French Proparco, and; 3) National Development Banks and public financial institutions at the domestic and sub-national levels with policy mandates, such as the Development Bank of Ecuador.

The Finance in Common Summit is a ground-breaking gathering of this diverse group that are united in an ability to invest for the common good. Trade unions recommend:

- Policy mandates and procedures operationalising the SDGs, with full and decent employment at the centre.
- Contributing to decent work through investment criteria and results measurement systems tracking the quality and quantity of employment.
- Binding operational safeguards and due diligence requirements aligned with international standards protecting human and labour rights, and environmental protection.
- Accountable shared governance including trade union representation on governing boards and transparent public disclosure of investments.
- Adequate resources that empower PDBs to take risks and provide long-term investments for sustainable development and recovery.
- Strengthened partnerships between multilateral or bilateral PDBs and National Development Banks, including increased resource transfers to the national level.
- A leadership role for PDBs in creating sustainable real economies with decent jobs, not a narrow focus on correcting market failure or subsidising the private financial sector.
- Utilising PDBs as part of macroeconomic and industrial policies for transformation, alongside universal social protection and quality public services.

PDBs matter because they have policy mandates that can go beyond the short-term profit focus of commercial financial institutions, and therefore can be a pillar of financing a just and sustainable recovery. They can account for externalities, avoid speculation and complex financial engineering delinked from the real economy, and tolerate the risk levels necessary for innovation. Further, PDBs can provide patient financing that encourages companies to invest in their workers, productive capacity, and sustainability. This approach is crucial for a just transition by helping companies and workforces move to lower-carbon activities while maintaining jobs. It will also help reverse the trends of precarious work, wage stagnation, and falling labour share of income that have impeded sustained growth and progress on living standards.

For too long, workers and the climate have been spurned while companies and private financial institutions focus on short-term maximisation of profits for shareholder value. Meanwhile, the early months of the COVID-19 crisis showed how underregulated private financial flows are unstable for developing countries that suffer enormously when external shocks lead to capital outflows regardless of domestic circumstances. The underpinnings and execution of the private-led development finance agenda are weak. We need stable public finance directly in recovery and development, not consigned to derisking and incentivising private investment. There is an essential role for PDBs in supporting quality public services and resilience. Right now, PDB support for the creation of a Global Fund for Social Protection would ensure no one is left behind during the crisis and create a lasting foundation for inclusion and stability in low-income countries.[1]

At the same time, PDBs are not where they need to be for a transformational recovery. The Summit can foster discussions on reform and improvement.

Development impact: Integrating decent work and the SDGs

The Summit should prioritise joint work to create PDB tools that measure and improve the sustainable development impact of PDBs, particularly towards decent jobs. In the wake of the massive employment and income loss during the COVID-19 crisis, more is needed to ensure effective contributions to decent job creation.

Griffith-Jones, Ocampo and Marodon provide a valuable suggestion for "sustainable development analysis grids to select transactions based on criteria that include but go well beyond purely financial ones".[2] Beyond selecting investments, every step of the project cycle should uphold social dialogue, job quality, and sustainable development impacts.

Several PDBs have taken initial steps. The CDC Group guides its portfolio with a development impact grid in which employment creation is one of two main axes. At DEG, the Development Effectiveness Rating system measures the number and decency of jobs created alongside indirect job creation potential. Important discussions and policy advancements have occurred among the European Development Finance Institutions and IFC. [3] In policy advice the World Bank Group has begun considering the jobs and inclusion effects of expanding certain sectors, even making an small foray into estimating the degree to which additional investment in a sector converts into higher worker incomes and the creation of formal jobs.[4] Other approaches include the OECD Foreign Direct Investment quality indicators related to labour: "productivity and innovation, employment and job quality, skills, gender equality, and carbon footprint." Applying these metrics, it was found that "FDI creates jobs and enhances wages but not necessarily other working

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[1] ITUC, "A global social protection fund is possible", <https://www.ituc-csi.org/global-social-protection-fund>.
[2] Griffith-Jones, Ocampo, and Marodon, "Mobilizing $400 Billion: Using the visible hand of development banks", <https://www.cgdev.org/blog/mobilizing-400-billion-using-visible-hand-development-banks>.
[3] Ergon Associates for EDFI/FMO, "Decent work and development finance", <https://www.edfi.eu/wp/wp-content/uploads/2019/04/Report-Decent-Work-and-Development-Finance-March-2019-2.pdf>.
[4] World Bank Group, "Creating markets in Burkina Faso", pages 66-75, <https://www.ifc.org/wps/wcm/connect/f45fd7a3-f8be-430b-bd9f-eb958ebe2d89/201907-CPSD-Burkina-Faso-EN.pdf?MOD=AJPERES&CVID=mNf5Bxk>.

conditions".[5] This reinforces why PDBs should prioritise all aspects of employment quality. The Quality of Employment project at the London School of Economics provides a promising approach measuring job quality based on income, job security, and employment conditions.[6]

PDB contribution to quality of employment is sometimes equated with labour safeguard compliance, which improves respect of labour rights for project workers but does not encapsulate quality aspects such as employment contract type, job security, upskilling, access to health and social benefits, and rising wages. Safeguard compliance is a floor. In addition to compliance, the job quality for project workers should be part of design, measurement, and evaluation.

Little consideration is given in development finance to employment conditions after a project ends, an important element in the contribution of public and private sector lending to sustainable development. For example, when construction project workers are treated well on an infrastructure project such as a bus rapid transit system, but the workers who operate the system are subject to poor working conditions and excessive hours. Modelling indirect job creation, rightfully a key goal, should integrate quality metrics such as the share of supply chain or indirectly created jobs that are in the formal sector, and the contribution to raising local labour income and reducing inequality.

For PDB private sector operations, ITUC proposes a whole-of-project-cycle approach to promoting SDGs alignment with eligibility requirements, appraisal and monitoring criteria, and results assessment. This integrates quality of employment measurements alongside other key outcomes including local economic and tax revenue impact, and the full implementation of safeguards.[7] A similar approach should be taken in public sector lending through robust due diligence, appraisal, monitoring, and results measurement based on the SDGs and decent work.

Alignment with international labour, human rights, and environmental standards

PDBs have led the way in adopting environmental and social standards (or safeguards), with an important role for the multilaterals. Binding requirements attached to lending are essential to preventing harm and improving conditions for workers and communities. Since the IFC adopted a labour safeguard in 2006, the practice proliferated and improved the lives of many workers. All PDBs should have binding safeguards, mechanisms for engagement with relevant organisations including trade unions, and independent accountability mechanisms.

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[5] OECD, "FDI Qualities Indicators: Measuring the sustainable development impacts of investment", page 17, <http://www.oecd.org/fr/investissement/fdi-qualities-indicators.htm>.

[6] Sehnbruch et. al., "The Quality of Employment (QoE) in nine Latin American countries: A multidimensional perspective", <https://www.sciencedirect.com/science/article/pii/S0305750X19303870>. From the abstract: "three dimensions that must be considered as both instrumentally and intrinsically important to workers and the functions and capabilities generated by their employment situation: income, job security and employment conditions. Job security is then divided into two sub-dimensions (occupational status and job tenure), as is employment conditions (social security affiliation and excessive working hours). Job security is then divided into two sub-dimensions (occupational status and job tenure), as is employment conditions (social security affiliation and excessive working hours".

[7] TUDCN, "Making private sector investments in development programs aligned with the SDGs", <https://www.ituc-csi.org/making-private-sector-investments> & <https://www.ituc-csi.org/IMG/pdf/criteria_private_sector_engagement_en.pdf>.

Despite the progress made, some PDBs do not have binding safeguards or accountability and remedy mechanisms. Even where such safeguards do exist, inconsistencies with international labour standards and failures in implementation contribute to violations of workers' rights. This is frequently the case with freedom of association and collective bargaining, due to safeguards that are mismatched with the ILO core labour standards and an unwillingness to hold clients accountable. For workers, this has meant retaliation and harassment when they exercise their right to form a trade union, and a lack of remediation as PDBs refuse to act.

Monitoring is overly reliant on the self-reporting of clients, and when serious violations are identified and communicated by trade unions the response is too often inaction. Under-staffing of environmental and social responsibility teams and a lack of expertise can exacerbate problems. This is particularly an issue for occupational health and safety. All PDBs should have occupational health and safety experts capable of working with clients to improve practices that prevent incidents and fatalities. In the spirit of accountability and addressing problem areas, key metrics of safety should be aggregated across the portfolio and publicly disclosed as conducted by EBRD.

The problems of implementation and the consequences of inaction are encapsulated by the IFC investment in Bilt Paper/Sabah Forest Industries. Despite ample evidence communicated by trade unions concerning the company's anti-union stance prior to investment, IFC moved ahead and failed to remediate further violations once they occurred. Oversight of environmental and social compliance was suspended during the investment, at the request of the company. The company was able to avoid recognition of the union, denying workers a voice through collective bargaining to address serious issues in the workplace, including safety problems that culminated in the death of a worker, mass temporary layoffs, and unpaid wages.[8]

The Summit should create the basis of joint work on upward harmonisation of safeguards with international standards, adoption by all PDBs, and the sharing of best practices for implementation. This includes further alignment of safeguards with the standards of the International Labour Organization, and consistent engagement with trade unions to identify risks, design action plans, monitor conditions, and fully remediate violations in a timely manner. Other areas of work should include coherence with human rights standards and community-led development.[9]

Crowding-in investment: PDBs as part of development and transition strategies

Under the banner of 'billions to trillions' the first five years since the adoption of the 2030 Agenda saw a retreat from public finance, inverting it to a facilitator of private interests. Instead of focusing on catalytic public investment, the logic goes that public money should be used to incentivise and derisk private investment, and reforms should accommodate the wishes of foreign investors.

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[8] Compliance Advisor Ombudsman, "Malaysia / Bilt Paper-02/Sipitang", <http://www.cao-ombudsman.org/cases/case_detail.aspx?id=238>.

[9] FIDH and others, "Human rights must be at the heart of the first world summit of Public Development Banks", <https://www.fidh.org/en/international-advocacy/other-regional-organisations/human-rights-must-be-at-the-heart-of-the-first-world-summit-of-public>.

The post-2015 model of private-led development finance is failing on its promise of converting billions to trillions and continues deregulatory structural reforms that have long impeded inclusive development while hurting working and living standards. Overreliance on foreign private finance is a recipe for disaster absent strategies for economic diversification, financial regulation, and coordinated capital flow management. Particularly detrimental to a private-led development approach is the orientation of the private financial sector to short-term returns and its risk aversion concerning new markets and innovations, especially in the context of developing countries. Nonetheless, private financial flows could support development if properly regulated and directed.

PDBs should not be narrowly restricted to correcting market failures, including when the promise of sustainable development through private finance fails. The tight timeline for achieving the Paris and 2030 agendas requires PDBs to act as trailblazers and first movers. The Summit should recognise that private finance has limits, particularly in building accessible infrastructure, directing investments toward productive activities aligned with the SDGs, reinvesting profits, and patiently investing and tolerating risk to prove the viability of new markets and activities that may not be immediately profitable. PDBs can provide the necessary environment to crowd-in private investors, foster innovation and accelerate growth. The answer is not spending public resources on directly incentivising private investment, nor artificially creating investment opportunities through privatisation.[10] Creating markets should mean genuine economic diversification and innovation.

The tasks of reconstruction and climate action are huge. The Summit should help speed up ambitious action by empowering PDBs to take a leading role in financing and shaping the future. PDBs are ultimately a tool for pursuing policy through investment, meaning they are most effective when deployed as part of sustainable industrial and macroeconomic policies. For too long the historically proven tools and strategies for development, including industrial policy and National Development Banks, have been side-lined. Today, they should be deployed for transformation.[11]

PDBs are needed at the frontlines of a just transition that realises the SDGs and Paris Accord. Social dialogue to form sectoral, sub-national, and national plans is the cornerstone of a just transition. Once these tripartite bodies have designed a strategy for economic transformation, PDBs can lead on the investment element. Combined with the mainstreaming of tools to measure decent work creation and sustainable development impact, this can ensure no one is left behind in an unfair transition that results in unemployment or precarious work.

Reforming and improving PDBs: mandates, shared governance, and resources

Decent jobs are the engine of sustainable development. Across PDBs, mandates should be renewed to always uphold decent job creation. This is vital across the many functions and levels of PDBs, from sub-national sectoral banks to the multilaterals.

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[10] Brunswijck, " Repeat prescription: The impact of the World Bank's private sector diagnostic tools on developing countries", Eurodad, <https://www.eurodad.org/repeatprescription>.
[11] Mazzucato, "Industrial Policy and the Climate Challenge", The American Prospect, <https://prospect.org/greennewdeal/industrial-policy-and-the-climate-challenge/>.

Although imbued with potential, PDBs can lose their way through a lack of shared governance, misaligned mandates, a lack of stable long-term resources, and the promotion of policies that undermine sustainable development. Solutions vary based on the type of PDB:

Reform and replenish: Multilateral Development Banks (public sector operations)

Quality public services, infrastructure, and universal social protection are the foundations of sustainable development and shared prosperity. Multilateral Development Banks (MDBs) should refocus their operations on these building blocks, ending promotion of deregulation and private-led development finance. Often undertaken in the name of attracting foreign investment, deregulatory policies promoted by the MDBs weaken worker protections, press privatisation and risky public-private partnerships, and undermine the provision of public goods needed for resilience and inclusive growth. The MDBs have been among the loudest proponents of a changeover to private-led development finance, epitomised in the World Bank's cascade and Maximizing Finance for Development approaches. Initiatives such as the World Bank IDA Private Sector Window risk redirecting money from catalytic public investments that form the foundation for growth toward subsidising individual private companies.

Nonetheless, multilateral support for reconstruction is necessary and there is no better vehicle than MDBs to catalyse public investment and support the expansion of health, social protection, and jobs. Increasing the resources available to MDBs can be accompanied by a comprehensive reform process that learns lessons while aligning operations with the SDGs and international standards.

By their nature, the boards of directors at MDBs are made up of governments. This governance structure should be supplemented with strong dialogue mechanisms, both input from trade unions to the institution, as well as regular consultations between board members, ministries of finance and worker representatives at the country level.

Further recommendations in this area are available in the Global Unions statement to the 2020 Annual Meetings of the World Bank and IMF, in the report Market fundamentalism and the World Bank Group: from Structural Adjustment Programmes to Maximizing Finance for Development and beyond, and in the IDA-19 replenishment recommendations of the ITUC.[12]

Ownership, accountability, and development results: Bilateral Development Finance Institutions and MDBs (private sector operations)

Development Finance Institution (DFI) mandates and the private sector operations of MDBs should be renewed to incorporate the SDGs and local economic transformation. If necessary, mandates should be adjusted to accommodate financing of National Development Banks and domestic PDBs

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[12] Global Unions, "Support recovery through public investment for quality jobs, not more harmful austerity", <https://www.ituc-csi.org/statement-imf-wb-october-2020>.
ITUC, "Market fundamentalism and the World Bank Group: from Structural Adjustment Programmes to Maximizing Finance for Development and beyond", <https://www.ituc-csi.org/market-fundamentalism-world-bank>.
ITUC, "International Trade Union Confederation recommendations for IDA-19", <https://www.ituc-csi.org/IMG/pdf/ida19_ituc_recommendations_5-2019.pdf>.

when the funds provided will ultimately be used in the private sector. Dialogue with trade unions, civil society organisations and other stakeholders in developing countries should be scaled-up in tandem with better partnerships between NDBs and DFIs. Doing so will help address continuing contradictions with country ownership, such as preferences for companies based in the donor country, and development impact, including the use of offshore financial centres by borrowers.

The performance of DFIs against key principles of development effectiveness – such as county ownership, mutual accountability and transparency and development results – is still to be greatly improved.[13] The governance structures of bilateral DFIs should always be balanced, including worker and civil society representation. Boards dominated by private sector representatives can be the most direct form of corporate capture and should be avoided. The inclusion of trade union representatives balances the perspective of the board and ensures attention to decent work creation and overall coherence with the development mandate. This is a salient need, as observers note that the recent expansion of DFI financial commitments "raise questions about where they are investing and where their growth is achieving development impact".[14]

Strengthen the foundation: National Development Banks and domestic public financial institutions

Trade union representatives are particularly relevant on the boards of National Development Banks (NDBs), where they can provide real-time input on labour market conditions and the impact of the institution in fulfilling its mission.

NDBs can be a driver of recovery and sustainable development but are likely to face further resource constraints and pressure as a result of the economic and budgetary devastation of COVID-19. The 2019 UNCTAD Trade and Development Report notes:

> In order for national public banks to distinguish themselves from other banks by lending mostly to productive and socially valued sectors, they must have both the mandate and the financial support that can enable them to take on longer term and riskier projects. Therefore, it is essential to protect and expand their long-term funding sources, as only long-term liabilities can put banks on a solid footing to finance long-term projects.[15]

The Summit can create momentum for coordinated and stable resourcing of NDBs.

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[13] ITUC, "Aligning blended finance to development effectiveness: where we are at" https://www.ituc-csi.org/IMG/pdf/aligning_blended_finance_to_development.pdf
[14] Devex, "The rise of Development Financial Institutions", page 10, < https://pages.devex.com/dev-finance-institutions-report.html>.
[15] UNCTAD, "Trade and Development Report 2019", page 160, <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2526>.

Strengthening partnerships to maintain a focus on the real economy

The Summit embodies a spirit of partnership that should be carried forward with policy coordination and increased financing to NDBs from multilaterals and bilaterals. NDBs can act as effective partners that ensure multilateral and bilateral resources deliver for sustainable development.

PDBs have increasingly turned to private financial intermediaries and blended finance. An increasing share of private sector investment goes through financial intermediaries in which the ultimate recipients of funding are hidden to the public. This has undercut transparency and environmental and social oversight, as this function is mostly handed over to the intermediary. The justification that intermediaries are necessary to channel finance to small enterprises and respond to local needs only partially holds water. As the share of portfolios dedicated to intermediaries grows, benefits to the real economy can be lost. Risk-taking by PDBs should be focused on real economy activity and not contribute to speculative financial engineering. Blended finance is mobilising little additional investment, particularly in low-income countries, and can end up unnecessarily subsidising private profit without broader gains or additionality.[16]

Increasing financing to NDBs from multilateral and bilateral institutions offers a way forward through more transparent and development-oriented localisation that achieves the aims of intermediation and blended finance without opening as many pitfalls. NDBs can build up detailed knowledge of local markets and effectively invest in the private sector, including small and medium enterprises beyond the reach of larger external institutions, while maintaining a focus on development and transformation that private intermediaries cannot. In public sector lending and financing, such as by the Green Climate Fund, NDBs can be a bridge and a dynamic partner that identifies and designs projects to support global and national goals. For their part, NDBs should primarily engage in direct financing to the real economy and transparently disclose investments.

Enhanced partnerships and international support to NDBs can encompass financing as well as policy dialogue. In particular, bilaterals and multilaterals should assist NDBs in adopting safeguards.

The International Trade Union Confederation urges the "Finance in Common" Summit and its declaration to move forward on an agenda of responsible and transformative public investment, underpinned by shared governance, binding safeguards that uphold international standards, mandates and policies aligned with the SDGs, and decent work promotion.

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[16] UNCTAD Secretariat, "Financing for development: International development cooperation and interrelated systemic issues", pages 9-15, <https://unctad.org/system/files/official-document/tdb_efd3d2_en.pdf>.
ITUC, "Aligning blended finance to development effectiveness: where we are at", <https://www.ituc-csi.org/aligning-blended-finance>.
Attridge and Engen, "Blended finance in the poorest countries: The need for a better approach", ODI, <https://www.odi.org/publications/11303-blended-finance-poorest-countries-need-better-approach>.